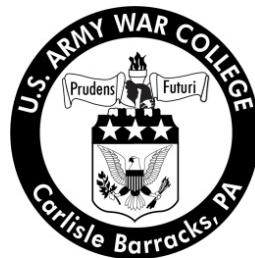


Strategy Research Project

China's Economic Statecraft in Africa: Implications for the U.S. Rebalance

by

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United States Army War College
Class of 2013

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Abstract

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China's trade with, foreign direct investment in, and development assistance to African countries have increased substantially over the last decade. This paper reviews the scope and context of China's economic statecraft in Africa to assess the intent and impact. China's engagement with Africa is a deliberate policy choice to secure its economic and political objectives; however, it is also consistent with the actions of rational actors in a free market. China's policies may undermine or discourage U.S. efforts to create better governance and improved standards of living in Africa, but these effects are incidental and not a deliberate Chinese goal. The United States should focus on its vital interests in Africa and adopt an accommodating posture towards China, facilitating its peaceful rise. As part of its overall strategic rebalancing, the United States should intensify efforts to increase China's participation in international economic institutions to maintain a global international economic system which facilitates U.S. economic strength.

China's Economic Statecraft in Africa: Implications for the U.S. Rebalance

In July 2012, Foreign and Economic Ministers from fifty African countries met their Chinese counterparts in Beijing for the Fifth Ministerial Conference of the Forum on China-Africa Cooperation (FOCAC). They celebrated twelve years of a growing relationship since the First Ministerial Conference of FOCAC in 2000 and their success in “consolidating China-Africa traditional friendship” and they reconfirmed their goal “to view China-Africa relations from a strategic and long-term perspective.”¹ Just one month prior, in June 2012, the 11th African Growth and Opportunity Act (AGOA) Forum² met in Washington, DC. The United States Congress passed AGOA in 2000 (concurrent with the establishment of FOCAC) to “assist the economies of sub-Saharan Africa and to improve economic relations between the United States and the region.”³ Secretary of State Hillary Clinton addressed the 11th AGOA Forum but without the fanfare demonstrated at the follow-on Fifth FOCAC in Beijing. This paper will highlight China’s success at deepening strategic relationships with African nations⁴ through trade, Foreign Direct Investment (FDI), and Official Development Assistance (ODA) and address appropriate U.S. responses to China’s economic statecraft.⁵

A review of China-Africa trade, FDI, and ODA confirms both the real and relative increase of China’s engagement with Africa from 2000-2010. Due to views of the world as a zero-sum game, China’s opaque systems, and persistent suspicion of China’s motives many observers conclude that China’s efforts are securing a position of economic and political advantage vis-à-vis other countries. From an economic perspective, one can view China as simply responding to the environment as a free-market rational actor. As with most complex issues, elements of both perspectives are

true. Although China's economic statecraft in Africa often undermines or discourages U.S. efforts to create better governance and standards of living in Africa, these effects are incidental to China's policy choices and not a deliberate goal.

Accordingly, the United States should focus on its vital national security interests in Africa and adopt an accommodating posture toward China's economic statecraft there, allowing this engagement to facilitate China's peaceful rise. As part of its overall rebalancing toward the Asia-Pacific, the United States should intensify efforts to increase China's participation in economic institutions in order to maintain a global international economic system which facilitates U.S. economic strength. Simultaneously the United States should review its approach in Africa to find more effective ways to advance U.S. interests there and mitigate the risk to African development inherent in China's approach.

Rationale for China's Economic Statecraft in Africa

China's objectives in Africa stem from broad policy goals which the Communist Party of China (CPC) articulates in its Five Year Plans (FYP). The 10th FYP for 2001-2005 introduced the "going out" strategy which included China's decision to join the World Trade Organization (WTO) and encouraged businesses (typically State Owned Enterprises (SOE)) to invest abroad in order to gain access to natural resources and export markets.⁶ Concomitant with the 10th FYP, China hosted the First Ministerial Conference of FOCAC, declaring with representatives from forty-four African countries a commitment to "vigorously promote further China-Africa co-operation."⁷ The 12th FYP (2011-2015) directed an acceleration of the "going out" strategy by expanding FDI. In order to implement the policy, China has used its SOEs to establish special economic

zones (SEZ) in Africa enabling labor-intensive manufacturing to move off shore as Chinese labor costs continue to rise.⁸

China's "going out" policy and its creation of FOCAC support four broad objectives. First, China hopes to secure access to natural resources (oil, natural gas, minerals, and lumber) which are essential for its sustained economic growth. Second, Africa provides China new markets to support increases in domestic production. Third, China intends to garner more international support and encourage African nations to vote with China in the United Nations and other international forums as a bulwark against nations who criticize China's human rights record or feel threatened by China's rise. Fourth, ending diplomatic relations with Taiwan is a prerequisite for membership in FOCAC; this policy has successfully convinced all but four African nations to break diplomatic relationships with Taiwan in support of the PRC's one-China policy.⁹

From Africa's perspective, China's economic statecraft is a huge boon. After decades of wrangling with western nations and international organizations about the terms necessary for debt forgiveness and other developmental assistance, African nations can now receive the assistance they want with "no strings attached" other than to reject Taiwan¹⁰. Unlike the Washington Consensus which preached how developing countries should structure their governments and economies, the Beijing Consensus puts a premium on state sovereignty.¹¹ Africa also enjoys Beijing's combining of diplomacy with economic statecraft resulting in several visits by high-ranking Chinese officials boosting the prestige of African nations individually and the continent as a whole.¹²

China's "no strings attached" approach is different than the United States' whose primary economic statecraft tool in Africa is AGOA.¹³ For countries to be eligible to participate the President of the United States must certify they

have established, or are making continual progress toward establishing the following: market-based economies; the rule of law and political pluralism; elimination of barriers to U.S. trade and investment; protection of intellectual property; efforts to combat corruption; policies to reduce poverty, increasing availability of health care and educational opportunities; protection of human rights and worker rights; and elimination of certain child labor practices.¹⁴

The simplicity and immediacy of China's economic statecraft when contrasted with ODA from the United States entices African leaders to overlook Chinese firms operating without host-nation labor, independent of international environmental standards, and with poor workmanship.¹⁵

Scope of China's Economic Statecraft with Africa

Although China's economic statecraft in Africa is significant in scope and in pace of growth over the last decade, it is not new when compared with China's history in Africa or massive when compared with economic engagement by the rest of the world.¹⁶ The United States and European Union remain Africa's leading trade, investment, and aid partners.¹⁷ Although neither new nor massive, China's engagement with Africa is often mischaracterized as such because of the relatively opaque systems which inhibit a full understanding of the true scope of China's economic statecraft both previously and currently. Further, China's exclusion from the Organization for Economic Cooperation and Development (OECD) allows it to define FDI and ODA independent of commonly accepted standards, often resulting in poor comparisons between China's FDI and ODA and that of developed economies. Since China joined the World Trade Organization

(WTO), however, there is consistent and reliable data to evaluate China's exports and imports to and from Africa.

Trade

Trade between China and Africa increased from \$10 billion in 2000 to \$130 billion in 2010.¹⁸ 70% of China's imports from Africa was oil and 15% was other raw materials (lumber, minerals, food, etc.).¹⁹ Consistent with China's imports from Africa being highly concentrated in oil, 70% of these imports come from only four countries: Angola (34%), South Africa (20%), Sudan (11%) and Republic of Congo (8%). Likewise, China's exports to Africa are highly concentrated with 55% in the continent's five largest economies: South Africa (21%), Egypt (12%), Nigeria (10%), Algeria (7%), and Morocco (6%).²⁰ These five countries are also among the continent's richest nations in per capita GDP²¹ and thus have the resources to be lucrative markets for Chinese goods which are primarily textiles, machinery, manufactured goods, and communications equipment.²²

China's increased trade with Africa from 2000-2010 represents only 20% its total trade increase (\$279 billion to \$981 billion) during the same period.²³ In 2000, trade with Africa was 3.6% of China's total trade; by 2010 it had increased to 15.3%. China's portion of Africa's total trade increased from around 6% in 2005 to 12.5% in 2010.²⁴ In 2008, China replaced the United States as Africa's top trading partner with \$100 billion in total trade.²⁵ From 2005 to 2010 Europe's and the United States' share of Africa's total trade decreased; however as a group, European countries remain Africa's leading trade partners.²⁶ Similar to China's trade with Africa, U.S. trade is concentrated in a few countries; its imports are primarily oil from Nigeria and minerals.²⁷

China's concentration of African trade in resource-abundant countries is consistent with the expected response of a rational actor in a free market.²⁸ China's substantial economic growth fueled by increases in manufacturing since 1980 has created a significant demand for energy and forced China to become a net importer of oil in 1993.²⁹ Oil from Africa is necessary for growing manufacturing and sustaining economic growth necessary to move China's vast rural population out of poverty. Africa lacks the capital and concentrated labor necessary to compete with Chinese production and is a natural market for China's relatively inexpensive manufactured goods. African countries are relatively resource abundant when compared with China. Economic theory predicts African exports would be predominately natural resources since this is their area of comparative advantage. While both Africa and China can benefit from increased trade, the proliferation of relatively cheap textiles and manufactured goods from China threatens recent progress in African manufacturing which is necessary to generate sustainable growth for Africa.³⁰

The increase in China-Africa trade represents clear advantages for China, no substantial risk to the United States, and short-term opportunity with long-term risk for Africa. Over the last 10 years China has rationally viewed Africa as a source of natural resources and markets for exports, both essential for China's continued economic growth. China has pursued a deliberate foreign policy strategy vis-à-vis Africa in order to secure access to both resources and markets increasing its share of Africa's total trade while diminishing the significance of the United States and Europe, Africa's traditional trade partners.

However, the increase in China's trade with Africa does not substantially disadvantage the United States. Africa in 2010 represented only 3% of global trade and was not a significant trading partner for the United States.³¹ Because all of Africa's countries are considered developing economies they are not natural markets for U.S. products.³² Nearly two thirds of China's imports from Africa are oil; however, this represents only 13% of Africa's total oil exports (and only 3% of China's oil requirement) while the United States and European Union combined receive 25% of Africa's oil exports.³³ The United States is projected to be the world's largest oil producer by 2020 and a net exporter of oil by 2035,³⁴ making China's increased access to Africa's oil of no strategic threat to the United States.

Increased exports to China over the past decade have contributed to Africa's significant economic growth while developed economies have suffered through a financial crisis and sluggish growth. However, the benefits of accelerated economic growth are likely to be short lived if there is not a corresponding investment in infrastructure and structural reforms necessary for African nations to move their economies from extractive industries to manufacturing and other higher value added markets. Textiles from China compete directly with nascent African industry and hinder the opportunities for development of African manufacturing. While many African countries' GDPs have been growing since 2000, most countries' manufacturing value added (MVA)³⁵ of exports has declined.³⁶

Foreign Direct Investment

While trade data for China and Africa is relatively straight forward, foreign direct investment data is ambiguous and subject to interpretation. This ambiguity is caused by the role of State Owned Enterprises (SOE) in China and their unique accounting

standards which before 2010 were largely inconsistent with International Financial Reporting Standards. The nature of SOEs allows China's FDI to ignore market forces and traditional risk analysis as the government seeks short term political objectives more than sustained profitability.³⁷ China establishes the amount and type of FDI as a matter of policy; by contrast, western governments might set FDI goals and then work with private firms to meet those goals. In this regard, China's FDI is almost analogous to OECD nations' ODA. However, Chinese policy commitments of specific FDI amounts are not always completed, creating further uncertainty of the true extent of Chinese FDI in Africa.

One assessment is that China's FDI in Africa doubled from less than \$1 billion in 2000 to more than \$2 billion in 2010³⁸ increasing at a rate significantly faster than FDI from elsewhere and making China the single largest investor in Africa.³⁹ Many analysts suspect this level underreports the true amount of China's FDI in Africa. Despite the discrepancy about the precise figures, four conclusions remain consistent: China's FDI in Africa has grown substantially over the last decade consistent with its global FDI growth;⁴⁰ China's FDI in Africa is highly concentrated in the oil industry⁴¹ and highly concentrated amongst a few countries with 70% going to five countries (Nigeria, South Africa, Sudan, Algeria, and Zambia);⁴² China's FDI in Africa is a small but significant percentage of their overall FDI (\$68 billion in 2010);⁴³ and China's FDI in Africa is a small portion of global FDI in Africa (\$55 billion in 2010) leaving traditional investors from the United States, Europe, and Japan in significant positions.⁴⁴

FDI typically supports growth in production capability indicating a firm in one country has created or expanded a subsidiary in another.⁴⁵ Profit seeking firms will

invest where they expect the greatest return on investment. Investing overseas implies the firm believes it will find a higher return there than at home. Such market forces highlight FDI by Chinese firms in Africa as free market choices by rational actors.

During the last decade, China's economy has been one of the fastest growing in the world driven largely by their manufacturing exports and domestic investment. With exports far surpassing their imports, China's trade surplus has resulted in substantial reserves of foreign currency which has enabled the purchase of developed countries' growing debt. However, these developed countries' aging populations and growing debt have created sluggish growth rates dampening Chinese exports. Concurrent with the financial collapse of 2008 and resultant global recession, China struggled with excess production capital creating a need to shift production out of textiles and assembled goods intended for export and toward higher value added production and production for domestic markets instead of exports.⁴⁶

FDI in Africa can help remedy many of these problems by providing higher returns than buying the debt of governments who have forced their interest rates to historic lows. Expanding production capacity in Africa also alleviates pressure from excess domestic investment and can facilitate shifting labor intensive production to Africa as Chinese labor costs continue to rise and Chinese firms seek higher value added domestic production. Because Chinese firms are accustomed to corruption typical of state-controlled developing economies, they have a higher risk tolerance for investing in Africa than their western counterparts. However, even Chinese SOEs are subject to traditional market risk inherent in FDI to include breach of contract, unexpected exchange rate fluctuations, and price changes in commodities. China's

willingness to ignore these risks indicates the role of SOEs responding to government policy rather than market forces. This decision to invest in Africa despite the inherent risk is particularly acute while there is substantial opportunity in China for expanding domestic production. China's population of 1.3 billion is increasingly leaving agriculture in search of higher wages.⁴⁷ With a per capita income of only \$4,500 China is still a developing country with a need for more domestic oriented and higher value-added manufacturing to provide higher incomes. FDI by a developing country in other developing countries reflects policy choices over market forces.

Many developing countries rely on FDI to jump start economic growth and expand employment. These investments help mitigate inherent shortages in foreign currency, domestic investment, and tax revenue. Sound FDI can link developing countries to globalized markets, introduce new technology, and improve productivity.⁴⁸ These free market forces encourage African nations to seek FDI from any available source. However, China's FDI is overly focused on retail and textiles which do not build African capacity or expertise and largely ignores African manufacturing, processing, or refining capacity which would yield improvements in MVA.⁴⁹

Concurrent with the CPC's "going out" strategy the United States implemented AGOA to increase U.S. FDI in sub-Saharan Africa (SSA) but it has not produced significant results. However, China's increase in FDI in Africa does not indicate that U.S. firms are missing opportunities. Rather, U.S. profit driven firms have evaluated the risk of investing in Africa and determined the risks are too high to warrant substantial investment. China's SOEs are not bound by these same constraints.

Official Development Assistance

Understanding China's ODA in Africa is challenged by the same ambiguity and lack of precise reporting as its FDI. This is largely attributable to China's exclusion from the Organization for Economic Cooperation and Development (OECD). OECD's Development Assistance Committee (DAC) has established the official definition of ODA and the reporting mechanisms for OECD members to track and coordinate their ODA. China's system of tracking and reporting ODA does not conform to DAC standards. The ODA ambiguity is exacerbated by China's banks which provide grants, interest-free loans, and concessional loans (considered ODA by DAC) to Africa without the transparency of western banks.⁵⁰ There has been significant reporting about China's loan commitments but there is not corresponding evidence that all of these commitments have resulted in real aid, adding to the uncertainty of the true scope of China's aid to Africa.⁵¹

One estimate of China's ODA to Africa is that it has grown from \$600 million in 2001 to \$2.5 billion in 2009.⁵² Another study focusing on loans highlights an increase in Chinese lending to Africa from \$800 million in 2005 to approximately \$1.4 billion in 2009.⁵³ Although there have been many open source reports of \$1.8 billion in aid solely in the form of loans, much of this commitment from the Export Import (EXIM) Bank of China was loans at market rates and does not constitute aid in accordance with DAC standards.⁵⁴ Many of these loans are repaid with exports of natural resources.⁵⁵

China's estimated \$2.5 billion in aid to Africa is dwarfed by DAC reported aid of \$48 billion in 2010.⁵⁶ Of all OECD members, the United States gives the most ODA to Africa of \$7.8 billion in 2010. The World Bank's annual aid to Africa of approximately \$4.5 billion also exceeds China's contribution. Other multinational organizations

contribute a combined \$18 billion annually to Africa. While China's aid to Africa grew significantly from 2000-2010, OECD aid remained relatively flat as developed economies dealt with growing debt, stagnating economies, and the financial collapse of 2008.⁵⁷ Much of China's aid to Africa comes as infrastructure projects (railroads, dams, ports, etc.) while western aid is usually intended intent on improving social conditions (health, education, poverty reduction, etc.) or provides loan forgiveness.⁵⁸

Economic theory recognizes ODA as a deliberate policy choice independent of market forces. International consensus has been for developed countries to provide ODA to developing countries to improve economic and social conditions with a secondary effect of stimulating economic growth and creating new markets for exports. Accordingly donor countries make independent decisions about the volume and location of their aid donations in accordance with their national priorities. China has reversed this priority and uses their aid to Africa to advance its domestic economic interests as a first priority, primarily by increasing access to resources in Africa. China's EXIM bank, created in 2000 to boost trade, has provided funding for more than 300 projects in Africa, mostly infrastructure development.⁵⁹ While these loans certainly benefit their African recipients, their primary purpose is to facilitate China's access to natural resources and to garner political support from recipients in international organizations.

Thirty-five African countries have received aid from China to develop infrastructure. As with trade and FDI, the infrastructure aid has been concentrated with greater than 70% going to four countries: Nigeria, Angola, Sudan, and Ethiopia; the preponderance of this aid has been for hydropower and railroads or other transportation systems.⁶⁰ While this benefits China's import of oil and other raw materials, it also

benefits African countries which have an infrastructure deficit. Africa's infrastructure deficit complements China's excess capacity in construction and infrastructure development caused by its economic slow-down after a decade long boom. As China's economy continues to expand (albeit at a slower rate) its demand for oil and other raw materials has grown beyond domestic capacity. Investing in Africa's oil, lumber, and mineral industries provides resources for China more efficiently.⁶¹

Many of these Chinese projects, however, have been criticized for poor workmanship with Chinese SOEs exploiting close relationships with repressive regimes, abusive labor practices, and disregard for environmental considerations.⁶² African leaders whose nations have received this aid from China have accrued tangible short term benefits of popular support by demonstrating the ability to deliver infrastructure improvements. However, it remains unclear if this aid will produce lasting economic growth or meaningful improvements in standards of living for the African people.

While China's aid to Africa is small when compared with traditional aid from developed countries it is significant in its newness, rapid growth, and focus on developing African infrastructure. Western countries have committed substantial aid to Africa with marginal results when compared with their objectives. China has committed substantially less but achieved more in accessing resources, facilitating exports, and garnering support from African nations in the UN and other international organizations. Although the scope of China's aid, when compared with aid from the United States, would indicate the United States enjoys greater influence in Africa, African nations prefer the aid from China which comes with no expectations for changes to governance structure or markets. African leaders perceive a win-win nature of China's aid while

resenting western countries' expectations of structural reforms and transparent institutions.⁶³

Analysis

Free-market forces can explain much of China's economic statecraft in Africa; however, the real impetus is a focused and deliberate strategy by China to facilitate its plan for a new role on the global stage. As described by Zheng Bijian, China seeks a peaceful rise that comes from continued economic growth spurred by domestic reforms, opening its economy, improved relations with other countries, and greater inclusion in international organizations.⁶⁴ Influence in Africa helps China to project an image as a global power with strategic reach and facilitates forming an international coalition to peacefully adjust the international order. China's economic statecraft in Africa not only raises its global standing, it is consistent with the growing need for energy resources and desire to shift domestic production to higher value added goods. With average per capita income less than \$4500 and more than 15% of its population living in poverty, China needs continued economic growth, fueled by global export markets and sustained by imported natural resources.

China integrates trade policy, investments, and aid to achieve specific domestic economic and political objectives. Consistent with this approach, China's chief aid instrument, the Development Bank of China, is a subordinate institution within the Ministry of Commerce.⁶⁵ By contrast the United States Agency for International Development (USAID) has a loose affiliation with the Department of State and only coordinates with the Department of Commerce which is responsible for trade policy.⁶⁶ The U.S. government's recent emphasis on integrating Defense, Diplomacy, and Development showcases its view that ODA's chief role is to help achieve national

security objectives. This is substantially different than China's approach of integrating aid, trade, and FDI policy to boost domestic economic output. China's strategy in Africa has helped it mitigate the effects of the global recession following the 2008 financial crisis. Through this period China has maintained significant, albeit lower, growth rates; increased trade with Africa is a component of this success.

Politically, China is reaping benefits from the improved relations with African nations which offer more than fifty votes in the United Nations and other international organizations that are built on the one state – one vote principle. China's delivery of investments and infrastructure projects has garnered support from most of Africa. As an example, at the International Telecommunication Union's (ITU) World Conference in Dubai, from 3-14 December 2012, China and Russia opposed U.S. and European proposals to maintain the internet as a global common with mostly unrestricted access in all nations.⁶⁷ Of the thirty-five African nations attending, only three (Gambia, Kenya, and Malawi) voted with the United States, resulting in an 89 to 55 defeat for the U.S. and European interest.⁶⁸ As China's economic and military power continue to grow, its opportunity to restructure the international order built by the United States and its European allies (who have stagnating population growth and sluggish economies) will also grow. China's relatively small economic investment in Africa has garnered it substantial political support in this endeavor.

Developed economies, motivated by a desire to help African governments overcome endemic challenges, have offered aid programs tied to changes in governmental structure and processes. China offers African governments a new approach viewing African nations not as developing countries in need of assistance and

reform but rather as equal members of the international community worthy of engagement. China frames its engagement with African nations as mutually beneficial for all parties with no expectation for African nations to adjust their domestic standards.

African nations also look to China as a model for development because it has enjoyed historically high growth and raised itself out of the category of least developed country. While African nations will benefit from the infrastructure improvements, debt forgiveness, and increased trade with China, China's model of a state-controlled economy is unlikely to work for most African nations who lack the homogenous society, strength from size, and access to capital.⁶⁹ The nature of China's aid and investment, dubious quality of infrastructure projects, accelerated exploitation of resources, and undercutting of emerging manufacturing creates long term risk for African nations that will likely outweigh the current benefits.

The U.S. National Security strategy lists security, prosperity, values, and international order as its enduring interests.⁷⁰ In June 2012, President Obama signed the *U.S. Strategy Toward Sub-Saharan Africa* which articulated U.S. interests in the region as

ensuring the security of the United States, our citizens, and our allies and partners; promoting democratic states that are economically vibrant and strong partners of the United States on the world stage; expanding opportunities for U.S. trade and investment; preventing conflict and mass atrocities; and fostering broad-based, sustainable economic growth and poverty alleviation.⁷¹

While China's economic statecraft in Africa does not substantially threaten any of these interests, it does present several challenges.

The United States' primary tool for fostering democratic governance in Africa has been its ODA combined with diplomacy. Because many African governing officials have

personally benefited from their existing domestic institutions they fear the change to more democratic institutions advocated by the United States as a precondition for its ODA and FDI. China's economic statecraft has reinforced the hope of many African leaders that they can attract foreign capital and investment to spur sustained economic growth without liberalizing their governments. Those who are benefiting from China's investment and infrastructure projects are likely to increase their complaints that U.S. support of democracy and reforms is an intrusion in their domestic affairs.

African leaders are also likely to resist U.S. leadership through international institutions. China's objective in its "going out" strategy is not to conform to international norms and standards but rather to adjust the international norms to be more accommodating to China's state-controlled approach for economic growth and politics. This approach resonates with African leaders who have tired of western lectures of required structure, policies, and process changes necessary to receive aid. The United States should expect African nations to bandwagon with China.

Despite these challenges, China's economic statecraft in Africa does not represent a real or substantial loss to the United States. Africa represents a small portion of the global economy. Even if Africa sustains high growth rates over the next decade, African nations will remain developing economies with only a few moving from low-income to middle-income. It will be decades before Africa has substantial markets for U.S. goods. China's increased ability to secure access to African oil does not represent a threat to the United States because oil remains a freely traded commodity with a global price. The U.S. benefits from investments to increase supplies of oil from Africa which help to reduce global prices. Although Africa is the world's leading supplier

of some precious minerals and metals, there is no evidence that African nations or China are preventing their sale on global markets. Current stockpiling could easily mitigate any risk of future Chinese control of these commodities.

Recommended U.S. Policy Approach

As Secretary of State Hillary Clinton noted, “the Asia-Pacific has become a key driver of global politics.”⁷² Accordingly, the United States is rebalancing its strategy toward the Asia-Pacific with a recognition in its Defense Strategic Guidance that “China’s emergence as a regional power will have the potential to affect the U.S. economy and our security in a variety of ways. Our two countries have … an interest in building a cooperative bilateral relationship.”⁷³ Any U.S. reaction toward China’s economic statecraft in Africa must consider implications for China as a first priority. Although many may fear China’s economic growth and its corresponding increase in military capability, trying to limit this growth is unfeasible and inconsistent with U.S. interests. Thus, U.S. policy should seek to accommodate China’s peaceful rise while challenging China’s attempts to change rules and norms of the international system which favor U.S. strength in global commerce and democratic institutions.

The United States should look for opportunities to cooperate with China in Africa as China’s influence grows. U.S.-China cooperation in Africa could serve as confidence building measures as the two nations work through disagreement and potential conflict in the Asia-Pacific region. A natural area for cooperation lies in conflict termination and prevention. China has recently become the leading contributor to UN peacekeeping missions with the United States as the leading funder. The United States should expand this trend either through the United Nations or with other multilateral arrangements. Ending and preventing conflict represents a common interest.

The United States also retains a vital interest in “disrupt[ing], dismantle[ing], and defeat[ing] Al-Qa’ida and its violent extremist affiliates.”⁷⁴ In Africa this means, denying safe haven in Somalia, the Maghreb, and the Sahel and helping countries “avoid becoming terrorist safe havens by helping them build their capacity for responsible governance and security through development and security sector assistance.”⁷⁵ Although Al-Qa’ida represents less of a threat to China than it does to the United States, as China’s influence and presence grows globally and in Africa, this threat will likely grow with it. The United States should leverage China’s growing influence in Africa and interest in regional security to help eliminate potential Al-Qa’ida safe havens in Africa. China can assist U.S. efforts by working to improve African police forces. The United States will need to retain strong leadership in Africa to strengthen and deepen the commitment of African governments to respect and protect human rights and rule of law while they strengthen security to deny terrorist safe havens.

While the United States seeks areas of cooperation and mutual benefit with China in Africa, it must remain mindful that China views the current international system as an inhibitor to its plans for a peaceful rise. China views the current international order as one built and maintained by the United States, based on U.S. values, and serving U.S. interests. Because the United States uses this system to reinforce its values of democracy, transparency, free-markets, and human rights, the system threatens Chinese sovereignty. China seeks a new international system that reduces the influence of the United States and expands the ideal of state sovereignty.⁷⁶ China is using its economic statecraft in Africa to build support for this world view.

The U.S. response to China's economic statecraft in Africa should focus on strengthening the legitimacy and effectiveness of international institutions which preserve the system of global commerce on which the United States relies for sustained economic growth. For the past decade China has managed the risks associated with greater involvement in the international system and reaped significant economic benefits from doing so. The United States should seek to further anchor China into the current system by moving China from being a free-rider in the system to becoming a stakeholder in the system. This could be achieved by inviting China to join the OECD⁷⁷ or increasing China's votes in the IMF.⁷⁸ Simultaneously, the United States should increase the diplomatic pressure for China to fully join global currency markets by allowing the free fluctuation of the value of the renminbi. Such changes will create tension as a rising China challenges U.S. norms and standards. Success in preserving the system will require discerning those changes that can accommodate Chinese desires without eroding the system's purpose and effectiveness.

Simultaneously the United States must reinvigorate the credibility and efficacy of the current system. African nations have readily joined China in critiquing the current system because they view the rules, norms, and processes as contributing to their stagnation. Many African nations have implemented changes to their domestic governments and economies as prerequisites for receiving OECD aid with the assurance that once implemented the changes would yield benefits. While there are many causes of stagnating African economies, their persistent poverty and inability to compete globally threatens the legitimacy of the current international economic system. The United States must strengthen and improve its development programs, not

because it needs trade with or resources from Africa, but rather because the United States needs African nations to reap the benefits of global commerce so they have a vested interest in sustaining the system that enables it. Supporting African development means charting a path to sustainable growth by moving production from solely extractive industries to manufacturing. Such support could require allowing developing nations in Africa to trade with support of protectionist measures such as subsidies, tariffs on imports, and incremental adherence to global labor and environmental standards along with eliminating protectionism of U.S. agriculture markets. The United States should also consider ways of providing technical assistance to African manufacturing to accelerate its development. Simultaneously the United States should encourage China to modify its FDI and ODA approach by hiring more African workers, improving infrastructure quality, and shifting investment from raw material extraction and towards sustainable manufacturing.

Conclusion

The United States should view China's successful economic statecraft in Africa as an opportunity and not a threat. China has been implementing its "going out" strategy to sustain economic growth and achieve the power and prestige necessary to influence the international system. During the last decade economic statecraft in Africa has been a critical component of this strategy. This economic statecraft has included increases in trade, FDI, and ODA as a means of facilitating the growth of China's domestic economy and its international influence. China and Africa view this new economic statecraft as mutually beneficial despite critiques of China's exploitative approach. China has benefited substantially from its economic statecraft in Africa with increased access to resources, increased exports, and increased support in

international organizations. Because this success does not directly threaten U.S. vital interests, the United States should leverage China's new influence in Africa to help secure U.S. vital interests of preventing and terminating conflict in Africa and preventing Al-Qa'ida from establishing safe haven on the continent. China's growing political influence with African nations increases its leverage to adjust the international system to accommodate the Chinese vision of global politics; therefore, the United States must reinforce its efforts to preserve the international system by accommodating China as a stake holder and implementing programs that allow African countries to benefit from the existing rules and procedures. While the United States continues its efforts to build good governance, reduce poverty, and improve development it should also encourage China to adjust its engagement in Africa to facilitate long term African development.

Endnotes

¹ Forum on China-Africa Cooperation, "The Fifth Ministerial Conference of the Forum on China-Africa Cooperation: Beijing Action Plan (2013-2015)," <http://www.focac.org/eng/dwibzjihys/t954620.htm> (accessed October 24, 2012).

² The AGOA Forum is also known as the U.S.--Sub-Saharan Africa Trade and Economic Cooperation Forum.

³ Vivian C. Jones and Brock R. Williams, *U.S. Trade and Investment Relations with sub-Saharan Africa and the African Growth and Opportunity Act* (Washington, DC: U.S. Library of Congress, Congressional Research Service, November 14, 2012), 15.

⁴ Throughout this paper I refer to Africa as if it was a unified entity. In reality, China's economic statecraft on the African continent is varied and recognizes the differences of the fifty-three distinct African nations. However, FOCAC membership and China's African Policy published in January 2006 (accessible at <http://www.fmprc.gov.cn/eng/zxxx/t230615.htm>) provide the context for simplifying the analysis with a continent approach. Although US policy often separates North Africa from sub-Saharan Africa (as in the African Growth and Opportunity Act), China's policy does not.

⁵ For a complete description of economic statecraft see David A. Baldwin, *Economic Statecraft* (Princeton, NJ: Princeton University Press, 1985). David Baldwin argues that economic statecraft is "economics as an instrument of politics" (3). As described by Secretary of State Hillary Clinton, U.S. economic statecraft includes making economic objectives part of foreign policy, finding economic solutions for strategic challenges, increasing U.S. exports, and

building diplomats' economic capacity. For more see Hillary Clinton, "Delivering on the Promise of Economic Statecraft," lecture, Singapore Management University, Singapore, November 17, 2012, <http://www.state.gov/secretary/rm/2012/11/200664.htm> (accessed 20 February 2013). In this paper I refer to China's trade, foreign direct investment, and development aid as economic statecraft since these are generally considered economic tools that China is employing to achieve political and economic objectives.

⁶ Greg Levesque, "Here's What's Driving China's Investments In Africa," Jun. 27, 2012, <http://www.businessinsider.com/heres-whats-driving-chinas-investments-in-africa-2012-6> (accessed November 24, 2012); Wang Duanyoung, *China's Overseas Foreign Direct Investment Risk: 2008-2009* (Johannesburg, South Africa: South African Institute of International Affairs, January 2011), 5,9, and 16-17, <http://www.saiia.org.za/occasional-papers/china-s-overseas-foreign-direct-investment-risk-2008-2009.html> (accessed November 24, 2012); Christopher M. Dent, "Africa and China: A new kind of development partnership," in *China and Africa Development Relations*, ed. Christopher M. Dent (New York: Routledge, 2011), 8-12.

⁷ Beijing Declaration of the Forum on China-Africa Cooperation, <http://www.focac.org/eng/ltda/dybjzjhy/DOC12009/t606796.htm>, October 12, 2000 (accessed December 12, 2012).

⁸ Levesque, "Here's What's Driving China's Investments In Africa."

⁹ David E. Brown, "*Hidden Dragon, Crouching Lion: How China's Advance in Africa is Underestimated and Africa's Potential Underappreciated*," September 17, 2012, 1-2, <http://www.strategicstudiesinstitute.army.mil/pubs/display.cfm?pubid=1120> (accessed October 1, 2012); David H. Shinn, "China's Growing Role in Africa: Implications for U.S. Policy," http://www.foreign.senate.gov/imo/media/doc/David_Shinn_Testimony.pdf (accessed October 1, 2012); Chris Alden, "China in Africa", *Survival*, 47, no. 3 (Autumn 2005). For decades the last two political objectives were more important for China than the first two economic objectives. That priority has reversed since 2000 with China focused on its economic objectives first

¹⁰ Council on Foreign Relations Independent Task Force Report no. 56, *More Than Humanitarianism: A Strategic U.S. Approach toward Africa*, (New York: Council on Foreign Relations, 2006), 51, <http://www.cfr.org/africa/more-than-humanitarianism/p9302> (accessed October 1, 2012).

¹¹ Fareed Zakaria, "Can America Be Fixed? The New Crisis of Democracy" *Foreign Affairs* 92, no. 1 (January/February 2013); Dent, "Africa and China: A new kind of development partnership," 6. For a complete description of the Washington Consensus see John Williams, "A Short History of the Washington Consensus," <http://www.iie.com/publications/papers/williamson0904-2.pdf> (accessed February 21, 2013). For a complete description of the Beijing Consensus see Joshua Cooper Ramo, "The Beijing Consensus, <http://fpc.org.uk/fsblob/244.pdf> (accessed February 21, 2013).

¹² Brown, "*Hidden Dragon, Crouching Lion: How China's Advance in Africa is Underestimated and Africa's Potential Underappreciated*," 31, 34-38.

¹³ Similarly, the Millennium Challenge Corporation (MCC) has provided more than \$5.8 billion in aid (70% of the program's total) to twenty-six African nations since it was created by

the U.S. Congress in 2004. MCC requires recipients to demonstrate “commitment to just and democratic governance, investments in its people, and economic freedom as measured by different policy indicators.” For more information see Millennium Challenge Corporation, Africa, <http://www.mcc.gov/pages/countries/region/africa> (accessed 9 February 2013) and Millennium Challenge Corporation, Selection Criteria, <http://www.mcc.gov/pages/selection> (accessed 9 February 2013).

¹⁴ The International Trade Administration, U.S. Department of Commerce, “African Growth and Opportunity Act General Country Eligibility Provisions,” <http://www.agoa.gov/AGOAEligibility/index.asp> (accessed December 13, 2012).

¹⁵ Dent, “Africa and China: A new kind of development partnership,” 12-16.

¹⁶ David H. Shinn & Joshua Eisenman, *China and Africa* (Philadelphia: University of Pennsylvania Press, 2012), 3; Dent, “Africa and China: A new kind of development partnership,” 5.

¹⁷ Shimelse Ali and Nida Jafrani, “China’s Growing Role in Africa,” *International Economic Bulletin* (Washington, DC: Carnegie Endowment for International Peace, February 9, 2012), <http://m.ceip.org/2012/02/09/china-s-growing-role-in-africa-myths-and-facts/9s2g&lang=en> (accessed 1 October 2012).

¹⁸ Shinn & Eisenman, *China and Africa*, 114-115.

¹⁹ David H. Shinn, “The Impact of China’s Growing Influence in Africa,” *The European Financial Review*, APR-MAY 2011, 17, in Proquest (accessed October 1, 2012).

²⁰ Mary-Françoise Renard, *China’s Trade and FDI in Africa*, Working Paper No. 126, (Tunis, Tunisia: African Development Bank Group, May 2011), 12-14, <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Working%20126.pdf> (accessed 1 October 2012).

²¹ United Nations Conference on Trade and Development, *Handbook of Statistics 2011*, (New York: United Nations, 2011), 404.

²² David E. Brown, “*Hidden Dragon, Crouching Lion: How China’s Advance in Africa is Underestimated and Africa’s Potential Underappreciated*,” 16.

²³ United Nations Conference on Trade and Development, *Handbook of Statistics 2011*, 2-3.

²⁴ Ibid., 90-91.

²⁵ Shinn, “The Impact of China’s Growing Influence in Africa,” 17. Although the US – Africa trade was greater than China–Africa trade for 2009, China resumed its place as Africa’s lead trading partner in 2010.

²⁶ United Nations Conference on Trade and Development, *Handbook of Statistics 2011*, 90-91.

²⁷ Jones and Williams, *U.S. Trade and Investment Relations with sub-Saharan Africa and the African Growth and Opportunity Act*, 7-12.

²⁸ Trade theory posits that trading partners benefit by focusing on their areas of comparative advantage. Economies that are relatively abundant in labor should focus production on labor intensive goods, export those goods, and import more capital intensive goods. Likewise, economies that are relatively abundant in capital should focus production on capital intensive goods, export those goods, and import labor intensive goods. Thus trading partners with different comparative advantages will each improve their consumption possibilities by selling at higher prices the goods they are best at making and purchasing at lower prices the goods they make less efficiently.

²⁹ Erica Strecker Downs, *China's Quest for Energy Security*, (Santa Monica, CA: Rand Corporation, 2000), 1, http://www.rand.org/pubs/monograph_reports/MR1244 (accessed 1 October 2012).

³⁰ Ali Zafar, "The Growing Relationship Between China and Sub-Saharan Africa: Macroeconomic, Trade, Investment, and Aid Links," *The World Bank Research Observer* 22, no. 1 (Spring 2007): 107, in ProQuest (accessed 1 October 2012).

³¹ United Nations Conference on Trade and Development, *Handbook of Statistics 2011*, 10-11.

³² Ibid., xii. Thirty-three African nations are considered heavily indebted and thirty-one are considered least developed. Their economies lack the resources necessary to purchase high end technological goods. Their markets are focused on subsistence goods, textiles, and basic machinery. These nations will require significant growth before they are able to afford U.S. exports.

³³ Shinn, "The Impact of China's Growing Influence in Africa," 17.

³⁴ International Energy Agency, *World Energy Outlook 2012 Executive Summary* (Paris, France: International Energy Agency, 2012), 1, http://www.iea.org/publications/freepublications/publication/name_33339.en.html (accessed October 1, 2012).

³⁵ Manufacturing Value Added (MVA) is a World Bank statistic that measures the net output of manufacturing (total value of manufacturing minus the value of inputs) in an economy. It is an indicator of the role of manufacturing within an economy. More information is available at <http://data.worldbank.org/indicator/NV.IND.MANF.CD>. Much economic literature argues that manufacturing is essential for Developing Countries to boost GDP and GDP per capita. To learn more about the importance of manufacturing for development see Adam Szirmai, "Is Manufacturing Still the Main Engine of Growth in Developing Countries?" *WIDER Angle* (New York: United Nations University – World Institute for Development Economics Research, May 2009), http://www.wider.unu.edu/publications/newsletter/articles/en_GB/05-09-Szirmai (accessed February 26, 2013).

³⁶ Rick Rowden, "The Myth of Africa's Rise," *Foreign Policy*, January 4, 2013, http://www.foreignpolicy.com/articles/2013/01/04/the_myth_of_africa_s_rise (accessed January 10, 2013).

³⁷ Duanyoung, *China's Overseas Foreign Direct Investment Risk: 2008-2009*, 16-17.

³⁸ Brown, "Hidden Dragon, Crouching Lion: How China's Advance in Africa is Underestimated and Africa's Potential Underappreciated," 18; Vivien Foster, William Butterfield, Chuan Chen, and Nataliya Pushak, *Building Bridges: China's Growing Role as Infrastructure Financier for Sub-Saharan Africa* (Washington, DC: The International Bank for Reconstruction and Development / The World Bank, 2009), 3, <https://openknowledge.worldbank.org/bitstream/handle/10986/2614/480910PUB0Buil101OFFICIAL0USE0ONLY1.pdf?sequence=1> (accessed October 1, 2012).

³⁹ Shinn, "The Impact of China's Growing Influence in Africa," 17.

⁴⁰ Ali and Jafrani, "China's Growing Role in Africa," Foster, Butterfield, Chen, and Pushak, *Building Bridges: China's Growing Role as Infrastructure Financier for Sub-Saharan Africa* 2.

⁴¹ Brown, "Hidden Dragon, Crouching Lion: How China's Advance in Africa is Underestimated and Africa's Potential Underappreciated," 19.

⁴² David Shinn, "China's Investments in Africa," China US Focus, November 1, 2012, <http://www.chinausfocus.com/finance-economy/chinas-investments-in-africa> (accessed December 13, 2012).

⁴³ Harry G. Broadman, *Africa's Silk Road: China and India's New Economic Frontier* (Washington, DC: The International Bank for Reconstruction and Development / The World Bank, 2007), 93, http://siteresources.worldbank.org/AFRICAEXT/Resources/Africa_Silk_Road.pdf (accessed October 15, 2012).

⁴⁴ Ibid., 94.

⁴⁵ Paul R. Krugman and Maurice Obstfeld, *International Economics: Theory and Policy*, 5th Edition (Reading, Massachusetts: Addison-Wesley, 2000), 169.

⁴⁶ Robyn Meredith, "Reinventing China, Again" *Foreign Policy*, January 7, 2013, http://www.foreignpolicy.com/articles/2013/01/07/reinventing_china (accessed January 10, 2013).

⁴⁷ United Nations Conference on Trade and Development, *Handbook of Statistics 2011*, 454.

⁴⁸ John C. Anyanwu, *Determinants of Foreign Direct Investment Inflows to Africa, 1980-2007*, Working Paper No. 136 (Tunis, Tunisia: African Development Bank Group, September 2011), 5, <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Working%20136.pdf> (accessed 1 October 2012).

⁴⁹ Shinn & Eisenman, *China and Africa*, 142; Dent, "Africa and China: A new kind of development partnership," 11.

⁵⁰ Dr Martyn Davies, Hannah Edinger, Nastasya Tay and Sanusha Naidu, "How China Delivers Development Assistance to Africa (Stellenbosch, South Africa: Stellenbosch University-Centre for Chinese Studies, February 2008), v, http://www.ccs.org.za/downloads/DFID_FA_Final.pdf (accessed October 7, 2012).

⁵¹ Shinn & Eisenman, *China and Africa*, 148.

⁵² Deborah Brautigam, *The Dragon's Gift* (New York: Oxford University Press, 2009), 170.

⁵³ Ali and Jafrani, "China's Growing Role in Africa.

⁵⁴ Brautigam, *The Dragon's Gift*, 178.

⁵⁵ Shinn & Eisenman, *China and Africa*, 52.

⁵⁶ Organization for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC), *Development Aid at a Glance, Statistic by Region: Africa*, 2012 edition, <http://www.oecd.org/investment/aidstatistics/42139250.pdf> (accessed December 17, 2012).

⁵⁷ Ali and Jafrani, "China's Growing Role in Africa.

⁵⁸ Shinn & Eisenman, *China and Africa*, 150-160.

⁵⁹ Davies, Edinger, Tay, and Naidu, "How China Delivers Development Assistance to Africa.

⁶⁰ Foster, Butterfield, Chen, and Pushak, *Building Bridges: China's Growing Role as Infrastructure Financier for Sub-Saharan Africa*, 3-4.

⁶¹ Ibid., 4.

⁶² Nathan William Meyer, "China's Dangerous Game: Resource Investment and the Future of Africa," <http://www.internationalpolicydigest.org/2012/10/09/chinas-dangerous-game-resource-investment-and-the-future-of-africa/#comment-4384> (accessed October 12, 2012).

⁶³ Foster, Butterfield, Chen, and Pushak, *Building Bridges: China's Growing Role as Infrastructure Financier for Sub-Saharan Africa*, 8.

⁶⁴ Zheng Bijan, "China's 'Peaceful Rise' to Great-Power Status," *Foreign Affairs* 84, no. 5 (September/October 2005): 18.

⁶⁵ For a complete description of how China has organized government agencies for economic state craft see Brautigam, *The Dragon's Gift*, 107-117.

⁶⁶ For an overview of the U.S. system of Development Assistance see Curt Tarnoff and Marian Leonardo Lawson, *Foreign Aid: An Introduction to U.S. Programs and Policy* (Washington, DC: U.S. Library of Congress, Congressional Research Service, February 10, 2011).

⁶⁷ L. Gordon Crovitz, "America's First Big Digital Defeat," *The Wall Street Journal*, December 16, 2012,

<http://online.wsj.com/article/SB10001424127887323981504578181533577508260.html>
(accessed December 17, 2012).

⁶⁸ Mike Masnick, "Who Signed The ITU WCIT Treaty... And Who Didn't," <http://www.techdirt.com/articles/20121214/14133321389/who-signed-itu-wcit-treaty-who-didnt.shtml> (accessed December 19, 2012).

⁶⁹ China's development has been accelerated by its ability to access capital through Hong Kong, Macau, and Shanghai. Geography and history have combined to make these cities natural ports and financial hubs. South Africa is the only African nation that enjoys comparable access to capital. The other 53 countries of Africa lack China's attributes calling to question the efficacy of China's model for African development.

⁷⁰ Barak Obama, *National Security Strategy* (Washington, DC: The White House, May 2010), 7.

⁷¹ Barak Obama, *U.S. Strategy Toward Sub-Saharan Africa* (Washington, DC: The White House, June 2012), 1-2.

⁷² Hillary Clinton, "America's Pacific Century", *Foreign Policy*, November 2011, 57.

⁷³ Leon Panetta, *Sustaining U.S. Global Leadership: Priorities for 21st Century Defense* (Washington, DC: The Department of Defense, January 2012), 2.

⁷⁴ Obama, *National Security Strategy*, 19.

⁷⁵ Ibid., 21.

⁷⁶ Randall L. Schweller and Xiaoyu Pu, "After Unipolarity: China's Visions of International Order in an Era of U.S. Decline," *International Security* 36, no. 1 (Summer 2011): 53-57.

⁷⁷ The OECD maintains a working relationship with China since 1995 when the OECD Council agreed to dialogue and co-operation with China...In 2007 the OECD Council adopted a resolution to strengthen the co-operation with China, Brazil, India, Indonesia and South Africa, with enhanced engagement and the potential in the future to lead to membership. "China and the OECD," <http://www.oecd.org/china/chinaandtheoecd.htm> (accessed March 5, 2013). For more about joining the OECD see "OECD enlargement," <http://www.oecd.org/general/oecdenlargement.htm> (accessed March 5, 2013).

⁷⁸ On December 15, 2010, the IMF approved a reform package which includes realigning quota shares (i.e. votes) making China the 3rd largest member country in the IMF. This package requires acceptance by three-fifths of the members having 85 percent of the total voting power. "IMF Quotas," <http://www.imf.org/external/np/exr/facts/quotas.htm> (accessed March 5, 2013). The United States has not yet accepted these reforms. The Obama Administration has not requested additional funding or authorization from the Congress in order to accept the reforms. Rebecca M. Nelson and Martin A. Weiss, *IMF Reforms: Issues for Congress* (Washington, DC: U.S. Library of Congress, Congressional Research Service, February 1, 2013), Summary.